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SUBJECT: REPORT ON NON-AGRICULTURAL MARKET ACCESS NEGOTIATIONS SEPTEMER 19-23, 2005

SUMMARY

¶1. The WTO Negotiating Group on Market Access (NAMA) met in Geneva from September 19-23, 2005 to continue work on the modalities for the reduction and/or elimination of tariff and non-tariff barriers (NTBs) affecting industrial goods, with the goal of determining the formula for tariff reductions and other key approaches to liberalization by no later than the Hong Kong Ministerial Meeting in December ¶2005.

¶2. Discussions were substantive and focused. Members discussed formula and sectoral tariff cuts as well as non-tariff barriers. Though Argentina, Brazil, and India (the ABI countries) continued to push their own tariff proposal, support for this approach continues only among the Caribbeans and some African countries. Members expect that the ABI countries will not abandon their proposal for strategic reasons related to the balance with agriculture and services results. Mexico and Pakistan both presented in detail their formula proposals seeking to bridge the discussion between the two main options on the table: the dual-coefficient Swiss formula and the ABI formula (which makes use of the country's average tariff level as a primary coefficient). END SUMMARY

FORMULA

¶3. NAMA Chair Stefan Johannesson asked Members to be prepared to address a cluster of issues in an integrated fashion: 1) the tariff cutting formula, 2) treatment for unbound lines, and 3) developing country flexibilities. Mexico presented its idea on how to operationalize the balance between ambition in the formula, Paragraph 8 flexibilities, and the treatment of unbound lines. While a number of countries including the U.S and other friends of ambition spoke of clear linkages between the three items in the cluster, others (including India and Brazil) argued that flexibilities are not linked to the formula and should be treated outside of other issues. Members also discussed Pakistan's formula proposal to use dual coefficients based on a simple Swiss formula.

¶4. The U.S. engaged Members in plenary sessions and bilateral meetings to clarify Member needs in all three areas and push for an ambitious outcome that properly balances all three components of the cluster of tariff related issues. In bilateral's it became apparent that a number of developing countries (including China) are anxious to begin discussions on numbers that would be appropriate for the formula coefficient, but there is some hesitancy in linking the numbers on flexibilities to the coefficient discussion. Some Members continue to link progress in NAMA to progress in other negotiating areas, making it difficult to initiate detailed discussions on numbers in the absence of progress in those areas. Brazil made an intervention that it will not be able to negotiate seriously in NAMA if it does not see equivalent movement and concessions from developed countries in Agriculture and on antidumping NAMA or other forums. Argentina echoed this statement. Brazil also called for reduced distance between the timing of negotiations in agriculture and NAMA.

PAKISTAN'S PROPOSAL:

¶5. Pakistan's proposal uses the same structure supported by the U.S. (i.e., a Swiss formula with dual coefficients, one for developed and one for developing). However, it proposes using the average bound non-agricultural tariff rates (6 for developed and 30 for developing countries) as the coefficients. For unbound tariffs, Pakistan proposed a 30 percentage point mark up of current applied rates before the application of the formula. Member reactions seemed to fall into three camps: 1) Members supporting Pakistan in structure but not on the numbers (including the U.S., Canada, Australia, Hong Kong, EC, Turkey, Philippines and Korea, which believe 30 is too high, and the gap between developed and developing country coefficients is too wide to be able to achieve new market access; 2) Members that appreciated having real numbers to consider and like the high figure for developing countries; and 3) Members that did not like the structure or the numbers. In informal

consultations with the U.S., China confirmed that Pakistan sees its numbers as negotiable. While there is one school of thought that thinks paragraph 8 flexibility is not negotiable, China thinks this viewpoint is too rigid. Mauritius raised concerns about the impact of the Pakistan proposal for a developed country coefficient of 6 on their preference margins in the US and EC markets. South Africa, followed by a few other delegations, raised the notion of running different scenarios on the Pakistan formula proposal with different ranges of numbers. The U.S. indicated that while not opposed to looking at numbers in different ranges, the Pakistan numbers do not work for us, and that concerns remain over the Secretariat running these numbers for technical reasons.

MEXICO'S PROPOSAL:

¶6. Mexico gave a comprehensive presentation on its proposal, which mathematically integrates formula, flexibility, and treatment of unbound lines. While based on the concept of a Swiss formula with dual coefficients, Mexico's proposal requires developing countries to apply a more ambitious coefficient, if they exercise Paragraph 8 flexibilities (formula exemptions or less than formula cuts on a certain percentage of lines). A similar mechanism would apply for unbound lines whereby developing countries would be allowed to depart from the Mexican rational approach for unbound lines on a limited subset of lines in return for applying a lower markup on the remaining unbound lines.

¶7. The complexity of Mexico's proposal elicited numerous questions and comments from Members. A number of Members spoke out against the concept of what they viewed as a "trade-off" between the formula coefficient and use of flexibility. Members including India, Brazil, Argentina, Malaysia, Thailand, El Salvador, and Barbados argued that developing countries should not have to pay for using flexibility by applying a more ambitious formula cut. Other developing countries, including Chile, Costa Rica, South Africa and Uruguay supported Mexico's concept because it gives Members choices on flexibility, and/or credit for not using paragraph 8 flexibility.

CHINA BILATERAL

¶8. In a separate meeting with the U.S., China said it does not endorse adding additional flexibilities to the text because it could open the door for even more options and limit their market access in developing country markets. China promised to talk about results of an evaluation it is conducting on specific industry needs for paragraph 8 flexibility at the next session.

EGYPT BILATERAL

¶9. The U.S. delegation also met with Egypt to resolve confusion over their position on the structure and ambition of the tariff-cutting formula. In response to the U.S. request for clarification, the Egyptian representative stated that they have no preference regarding formula structure and that their position will be driven by the coefficient that determines the depth of tariff cuts. They also stated their discomfort with the link between the formula and flexibility. The U.S. asked how much comfort Egypt expects from the flexibility already provided by paragraph 8 and for details on what paragraph 8 does not provide. Egypt was reluctant to get specific on the level of coefficient they would be willing to undertake, however their `interest' in the ABI proposal suggests that their number hovers around 30. Egypt's sensitivities in the textiles sector seem to be driving their lack of ambition in the formula, and they also seemed reluctant to pursue a `sectoral approach' on textiles outside of the formula given Cairo's impression that a sectoral agreement would be more ambitious than the formula.

TRINIDAD AND TOBAGO BILATERAL

¶10. The US delegation also met with representatives from Trinidad and Tobago to exchange positions on the formula and flexibilities, as well as discuss CARICOM's July proposal for giving credit in the formula to small economies based on a number of `development' indicators. Trinidad did indicate that revenue dependence was not a concern for them, but was a significant issue for other smaller CARICOM countries. The US delegation expressed concerns that many of the criteria identified in the CARICOM proposal were unquantifiable while others captured key US markets like Brazil and India. Trinidad and Tobago did indicate that revenue dependence was not a concern for them, but for other smaller CARICOM countries. On the formula, Trinidad and Tobago stated that the CARICOM position on the formula, i.e. their unwillingness to undertake any formula reductions that would cut into applied rates, had not changed. They would

like to maintain sufficient `policy space' which would allow them to develop future industries (such as steel and cement) and did not see longer implementation periods as a mechanism to address this concern. When pressed as to what formula coefficient would address their needs, they hinted at the ABI formula with a B coefficient of 4, or a Swiss 200. On Paragraph 8, they indicated that they would use exceptions from the formula for those products bound at 70, but that the trade limitations currently in brackets in Annex B were not sufficient to cover their sensitivities.

AD VALOREM EQUIVALENTS

¶11. The Chair briefed the plenary on the significant progress made during consultations on September 13 on how to calculate ad-valorem equivalents (AVEs), noting that Members seemed willing to use the agriculture method for calculating AVEs without filters. The Secretariat then presented its guidelines on AVE calculations to the plenary. The Chair said that Members might need to deviate from these guidelines, but would need to provide justification for these deviations. The United States thanked the Secretariat for the guidelines and noted concerns on two technical issues: 1) the treatment of pooled tariff rate quotas and the need to calculate these at the tariff line level, and 2) how to calculate mixed duties. Argentina suggested these guidelines be used for both agriculture and non-agriculture products. (Note: The Agriculture negotiating group has already agreed on its own guidelines, on which the NAMA approach is based. NAMA rules are slightly simpler, reflecting the fact that there are no major differences between world market prices and domestic prices in industrial products.) The Secretariat indicated it would be sending Members spreadsheets to be used for calculating and verifying AVEs.

PRODUCT COVERAGE

¶12. The Chair introduced a revised paper on product coverage (JOB(05)/166) and noted that the Secretariat will be preparing a paper on how tariff lines with some agriculture components in sub-headings should be treated in the negotiations. The United States stated that it would like a specific list of products rather than guidelines from the Secretariat.

SECTORALS

¶13. Members continued their work in informal meetings on nine sectors, detailed below. Developing countries continue to be involved in the discussions, with the most active participation coming from developing ASEAN members and Chinese Taipei. Members participating in several sectoral initiatives have collaborated on formal papers that have been submitted to the larger negotiating group proposing tariff liberalization in specific sectors. Two developing countries (Chinese Taipei and Thailand) have authored papers on sectoral liberalization that were submitted to the negotiating group during the week of September 19.

¶14. Electronics and Electrical Goods: Japan hosted the meeting with the EC, Switzerland, Hong Kong, Canada, Malaysia, Japan, Mexico, Thailand, Korea, Indonesia, Australia, Chinese Taipei, Singapore, United States, and Kenya in attendance. Japan circulated some additional data and ideas for product coverage that participants will use for consultation with industry and capital officials. A number of developed countries have asked developing country participants for additional guidance on what type of flexibility and special and differential treatment provisions they may need. Thailand indicated after the meeting that it would co-sponsor the paper submitted to the negotiating group in July by Japan, Korea, Singapore, and the United States.

¶15. Forest Products: Canada hosted the meeting with the EC, Singapore, Turkey, Norway, Switzerland, Turkey, Peru, Indonesia, South Africa, New Zealand, Chinese Taipei, Thailand, Hong Kong, Malaysia, and the United States in attendance. Canada circulated its draft paper, which proposes tariff liberalization on wood, paper, and printed materials as well as other products of export interest to participants. Canada is seeking co-sponsors for its paper; thus far the United States and New Zealand have agreed to sign on. Canada's proposal highlights the growth potential in this sector for many developing countries. Some participants (Thailand and Chinese Taipei) inquired about the inclusion of wood furniture.

¶16. Drugs and Devices: Switzerland hosted the meeting with Japan, Chinese Taipei, Israel, Thailand, Hong Kong, the United States and the EC in attendance. India and Brazil were invited but did not attend. The United States will circulate the list of products covered by the Uruguay Round

medical equipment agreement for participants to comment on. Thailand, Japan, and Hong Kong will continue to consult with industry on areas of export interest in this sector. As few developing countries have attended the meetings, participants agreed to expand the invitation list to the following countries: Malaysia, the Philippines, Zambia (as a representative of the LDC group), Morocco, Kenya, Peru, South Africa, and Korea. An invitation will again be sent to India and Brazil.

¶17. Gems & Jewelry: Thailand hosted a meeting with Japan, Israel, Switzerland, Norway, Australia, Korea, Turkey, EC, Peru, China, South Africa, Hong Kong, Chinese Taipei, Canada, Singapore, and the United States in attendance. Thailand circulated its proposal on tariff liberalization in the gems & jewelry sector, which proposes tariff elimination in precious stones, pearls, synthetic stones and precious metals. Thailand submitted its proposal to the larger negotiating group with three co-sponsors: Singapore, Hong Kong, and the United States.

¶18. Bicycles/Bicycle Parts and Sporting Goods: Chinese Taipei hosted a combined meeting on these two sectors with Japan, Norway, Thailand, the United States, Canada, New Zealand, Australia, EC, and Hong Kong in attendance. Chinese Taipei circulated two separate papers on tariff liberalization in the sporting goods and bicycles sectors. Although, Chinese Taipei submitted these papers to the larger negotiating group, it continues to seek co-sponsors of its proposal. For sporting goods, Chinese Taipei is recommending product coverage that includes recreational equipment, including skis, balls, rackets, and skates. For bicycles, its paper proposes tariff liberalization on all bicycles and parts.

¶19. Chemicals: The United States hosted a meeting with Japan, Chinese Taipei, Thailand, South Africa, Singapore, Switzerland, Norway, Hong Kong, EC, Korea, Australia, Turkey, Canada, Oman, the UAE, and Croatia in attendance. The meeting focused on products that could be liberalized in this initiative using the Uruguay Round Chemical Tariff Harmonization Agreement as a basis. At present, the participants are interested in including a wide range of chemical products across the supply chain from basic organic and inorganic chemicals to more processed products such as plastics, soap, and fertilizers. Japan is also interested in including some rubber products and will circulate potential additions to the list electronically.

¶20. Fish: New Zealand hosted the meeting with Chile, Australia, Peru, Switzerland, Norway, Thailand, Canada, Singapore and the United States in attendance. Norway is working on a draft paper on proposed liberalization in the fish and fish products sector for tariffs as well as non-tariff barriers. The meeting focused on tariff liberalization; participants discussed broad product coverage in fish and fish products, end rates, implementation periods, and flexibility for developing countries. Canada and Norway are interested in reducing tariffs to zero. Thailand noted its interest in this sector but will need some flexibility for a few products.

¶21. Autos: Japan hosted a meeting with Hong Kong, Korea, Canada, Malaysia, Singapore, Korea, Mexico and the United States in attendance. Japan introduced its draft paper on tariff liberalization for autos, which included critical mass data and suggested product coverage of passenger vehicles. Japan also reported on the activities of the Global Automotive Industry Dialogue (GAID), comprised of industry associations from Brazil, Canada, India, Japan, Korea and the United States. The GAID will meet the week of October 10 in Geneva to discuss non-tariff barriers affecting the autos sector.

NON-TARIFF BARRIERS (NTBs)

¶22. NTB meetings this week were substantive and better attended than previously. Several new informal papers on the "nature of the barrier" were circulated. A common thread was discussion on how to move the process from the identification phase to the next level of actual problem solving. The U.S. hosted two meetings to reach out to LDCs, certain developing countries, and small economies to get a better sense of their NTB concerns and how the U.S. might assist their efforts. The United States also hosted an informal meeting on NTBs affecting the automotive industry. In separate bilaterals with EU and Japan after the auto meeting, the US delegation suggested that individual WTO Members take leadership to draft proposals to advance specific auto NTB issues. Japan agreed to shepherd work on automotive customs issues that may be too industry specific to be taken up in the more general Trade Facilitation negotiations, and the EU agreed to take the lead on TBT issues affecting the auto industry. India is considering our suggestion that it take the lead on intellectual

property issues affecting the auto industry. New Zealand, Korea, the EC, and Japan led informal NTB meetings on wood products electronics, export taxes and export restrictions, respectively. At the electronics meeting, Korea distributed a report of the group's activities since its inception, and indicated that its plan to invite regional coordinators (e.g., for LDCs and Africa) to the October NAMA meeting. In addition, Members focused on the case of NTBs resulting from the convergence of IT and non-IT products (such as LCD monitors) and the need to include industry input due to the highly technical nature of the discussion. The US noted that it is developing a proposal to address regulatory barriers faced by the electronics industry and hoped to have this proposal ready to circulate later this fall. At the EC-hosted meeting on export taxes, the EC spoke of eliminating export taxes and, where elimination is not possible, imposing a cap. Japan raised the issue of quantitative export restrictions on minerals and its view that current WTO disciplines do not provide guidance as to quantitative export restrictions (as they do for quantitative import restrictions). In response to a U.S. question as to whether this proposal would cover the large number of dual-use items of proliferation concern that are subject to export restrictions, Japan affirmed that such controls were not part of the proposal. Japan believes that a discussion should take place on how to balance the WTO agreement such that export and import restrictions are treated equally, both in a systemic manner as well as in the specific context of minerals.

NEXT STEPS

¶23. The Chair set the next NAMA session for October 10-14 and indicated that the short gap between sessions was necessary as we approach Hong Kong. The Chair emphasized to delegations that with the Ministerial fast approaching, they should be prepared for continuous negotiations and the possibility of being called in for consultations on short notice.